



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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## Frequently Asked Questions About the Federal Budget

The following pages use the most recent data available to answer many frequently asked questions about the budget.

### 1. What is the projected total U.S. budget for FY 2002?

According to March CBO figures (including the impact of the economic stimulus legislation), federal government spending (including Social Security) is projected to be \$2.010 trillion. “On-budget” spending, which excludes Social Security, is estimated to be \$1.649 trillion. Net “off-budget” spending, primarily Social Security, is estimated to be \$361 billion.

#### Major Categories of Spending - Estimated FY2002 Outlays Percentage

	<u>Dollar Amount</u>	<u>Federal Budget</u>
Discretionary spending:		
Defense	\$348 billion	17 percent
Non-Defense	\$383 billion	19 percent
Entitlements and other “mandatory” except net interest:		
Social Security benefits	\$453 billion	23 percent
Medicare (net of premiums)	\$223 billion	11 percent
Medicaid	\$146 billion	7 percent
Other (e.g., Civil Service and Military Retirement, SSI, EITC, Veterans’ Benefits, etc.)	\$354 billion	18 percent
Miscellaneous receipts that offset spending (net of Medicare premiums)	\$-65 billion	-3 percent
Net interest	\$168 billion	8 percent

## **2. How much tax revenue is the federal government expected to collect in FY 2002?**

In March, the Congressional Budget Office (CBO) estimated that total federal government revenues (including Social Security) would be \$1.942 trillion in FY 2002. This estimate consists of \$1.424 trillion in on-budget revenues (which exclude Social Security), and off-budget revenues of \$0.518 trillion. These figures include the budgetary effects of the economic stimulus package signed into law in March 2002. Since the March estimate, however, receipts in the crucial spring tax filing season have been much weaker than expected. For instance, total receipts in the month of April alone were \$94 billion lower than a year earlier.

## **3. What is the estimated budget deficit for FY 2002?**

In July, the Administration's Office of Management and Budget (OMB) issued its Mid-Session Review, which includes the projected costs of Administration proposals. OMB projected a deficit for FY 2002 of \$165 billion (revised downward from its February projection of \$109 billion). OMB projected a deficit for FY 2003 of \$109 billion. CBO's August update will likely project a larger deficit than this for FY 2003.

This past March, in its latest official estimate, CBO projected the total budget deficit, including Social Security, to be \$46 billion for FY 2002. The off-budget surplus would be \$157 billion, due to a \$160 billion Social Security surplus (offset slightly by Postal Service net spending). The on-budget accounts, which exclude Social Security, would run a deficit of \$203 billion, after running a deficit of \$34 billion in FY 2001.

These CBO figures are baseline projections, which assume no change in policy (though they do include the effects of the stimulus bill that was already enacted into law). However, the budget outlook has worsened considerably since March. In its "Monthly Budget Review" of June 14, 2002, CBO stated that it "now expects the [total] deficit for the entire fiscal year to end up well above \$100 billion." CBO is scheduled to issue its updated figures by the end of August.

## **4. What are the CBO projections about deficits and surpluses over the next ten years?**

Again, in March, CBO projected that the total budget (including Social Security) would improve from its \$46 billion budget deficit in FY 2002 to a \$40 billion deficit in FY 2003, a \$26 billion surplus in FY 2004, and subsequent surpluses rising to \$313 billion in 2010. Thereafter, assuming that last year's enacted tax cut was allowed to expire at the end of 2010, the surplus would jump to \$456 billion in 2011 and \$653 billion in 2012.

Excluding Social Security (and the Postal Service), the \$203 billion deficit of FY 2002 would worsen to a \$216 billion deficit in FY 2003, and then improve to a \$168 billion deficit in FY 2004, eventually reaching a \$26 billion surplus in 2010. The cumulative total surplus over 2003-2012 would be \$2.332 trillion; the cumulative on-budget (that is, non-Social Security and non-Postal Service) deficit would be \$150 billion. These figures include the budgetary effects of the economic stimulus package signed into law in March 2002.

The worsening of the budget outlook since March will surely impact the early years of the outlook in an adverse and significant way. CBO must estimate how this effect will carry forward to the later years.

### **5. Didn't last year's budget projections call for large surpluses? What happened?**

Just one year ago, both CBO and OMB projected total budget surpluses of \$5.6 trillion over the ten fiscal years 2002-2011. However, the Administration proposed, and the Republican Congress enacted a tax cut costing \$1.7 trillion (including debt service) over 2001-2011 (assuming the tax cut's improbable sunset at the end of 2010). This tax cut exhausted virtually all of the non-Social Security, non-Medicare surplus over the first eight years of that budget window. The economy fell into recession, worsening the budget further.

However, more of an influence than the economy have been technical developments, perhaps driven by the falling financial markets, which have shown that the original surplus estimates were far too optimistic. These developments now indicate strongly that Democratic admonitions of caution before dissipating all of a projected surplus on a large tax cut were well founded. However, the Administration and the Republican Congress chose to ignore those admonitions, and the unfortunate results now appear likely to plague the country for years, and perhaps decades, to come.

### **6. Are Republican claims true that deficits are back because of the cost of September 11?**

When the Administration assumed office, the unified surplus over the 2002-11 period was \$5.6 trillion. OMB now estimates it to be \$0.4 trillion, a decrease of \$5.2 trillion. The cost of responding to September 11 is approximately \$600 billion, or 12 percent of the total deterioration of the surplus. This estimated cost includes the \$40 billion emergency supplemental bill enacted last year, the airline bailout bill, the USA PATRIOT Act, and the victims compensation bill. It also assumes the enactment of the 2002 supplemental, the doubling of homeland security funding above pre-September 11 levels, establishment of the Department of Homeland Security, and more than \$20 billion per year for the Pentagon to conduct the war on terrorism.

By contrast, OMB's own estimate of the cost of the Bush tax cut, including interest, is \$1.5 trillion over the 2002-11 period. Thus, the enacted tax cut alone accounts for 29 percent of the deterioration of the surplus, according to OMB's most recent numbers. At the same time, the cost of responding to September 11 is no higher than 12 percent.

### **7. What is the estimated total federal debt?**

In March, CBO estimated that federal debt held by the public would be \$3.355 trillion at the end of FY 2002 (excluding the effects of the economic stimulus package). However, this year's total federal deficit, which is the change in publicly held debt, is widely expected to be worse than expected, implying a higher debt as well.

### **8. What is the debt limit and why did it need to be raised in June 2002?**

The statutory limit on federal debt, which applies to the sum of publicly held debt and securities held in government trust funds, is currently \$6.40 trillion. This spring, the Treasury Secretary avoided a breach of the statutory debt limit only by dis-investing the retirement trust funds for

federal employees. He announced that, even with such maneuvers, the statutory limit would have to be raised before June 28. In June, the Congress passed, and the President signed, a bill raising the debt limit from \$5.95 trillion to \$6.40 trillion.

The debt outlook has deteriorated significantly since last year because of the reappearance of budget deficits. Last year, the Administration projected that the statutory limit on debt would not be breached until 2008. However, with deficits again causing debt held by the public to grow rapidly (trust fund debt is essentially unchanged from previous projections), the government found itself facing the statutory debt limit this year.

### **9. How large is the estimated Social Security Trust Fund balance?**

In March, the annual report of Social Security's trustees estimated that the Social Security Trust Fund would hold \$1.379 trillion in special Treasury securities at the end of calendar year 2002. These securities represent a standing legal claim on the U.S. Treasury to pay Social Security benefits in the future.

According to the most recent projections of the Social Security Trustees, the cost of Social Security benefits under current law will begin to exceed Social Security tax revenues in 2017. In 2027, the Social Security Trust Fund will begin to run an annual deficit, as the cost of benefits will exceed both Social Security revenues and interest earned on the bonds in the Social Security Trust Fund. By 2041, the bonds in the Social Security Trust Fund will have been exhausted, and the Social Security Trust Fund will be insolvent.

### **10. How does the budget account for the Medicare Trust Fund?**

Under current law, the Medicare Trust Fund (Part A, or Hospital Insurance) is an on-budget account, unlike Social Security which by law is off-budget. Prior to this year, both parties had agreed that the Medicare Part A surplus, like the Social Security surplus, should not be available for tax cuts or new spending, and should be secured in a legislative "lockbox."

Unfortunately, the President's 2003 budget, like his 2002 budget, asserted that there is no Medicare surplus. Last year, OMB Director Mitch Daniels called the Medicare surplus "a hoax." In March 2002, CBO confirmed that the Bush tax cut forces the government to exhaust the Medicare Trust Fund surplus (\$329 billion) over the next 10 years (2002-2011).

### **11. What is the cost of Medicare?**

In FY 2002, federal spending for Medicare benefits (net of premium receipts) is estimated to be \$223 billion. In 2003, CBO projects that the net cost of Medicare benefits will be \$233 billion. According to the 2002 Medicare Trustees Report, Medicare remains solvent until 2030 under current law. This is one year longer than the previous year's projection.